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Process to Determine School Bus Replacement Maximum Levy

House Enrolled Act 1004-2011 amended IC 20-46-5-4 to provide that a school corporation's ("corporation") bus replacement levy for the March 1, 2011, and January 15, 2012, assessment dates could not exceed the amount approved by the Department of Local Government Finance ("Department") under IC 20-46-5-5 and IC 6-1.1-17. In approving a bus replacement levy, the Department was required to: (1) evaluate whether the bus replacement levy proposed by a corporation would exceed its reasonable needs in carrying out the purposes of the bus replacement fund; and (2) approve a levy that would not exceed the reasonable needs of the corporation in carrying out the purposes of the fund. In making its determination, the Department could consider whether a corporation had in a previous year transferred money from its bus replacement fund to another fund, including its rainy day fund.

To satisfy this new statutory obligation, the Department obtained objective bus pricing for each major bus classification (A, B, C, and D) from the Central Indiana Educational Service Center ("CIESC") and reviewed each corporation's 2011 Bus Replacement Plan to determine a proposed bus replacement levy for each corporation based on the number and type of buses the corporation owned, the number and type it intended to replace, and the amount of the corporation's bus-related contractual obligations. If the Department was unable to determine bus classification based on the 2011 Bus Replacement Plan, the Department contacted the school corporation for additional information and clarification regarding the 2011 Bus Replacement Plan. Relying on the bus price information and the corporations' own 2011 Bus Replacement Plans, the Department added together the replacement costs by bus classification and the amount of bus-related contractual obligations and divided this number by 12 to reflect a 12-year plan.

On July 6, 2011, the Department notified each corporation of an initial bus replacement maximum levy, explaining the framework it used to calculate the proposed maximum need and giving each corporation until July 18, 2011, to review the proposed maximum need and provide to the Department any information that would require adjustment to the proposed maximum need. The notification stated that the need would be adjusted by miscellaneous revenues to arrive at the maximum levy.

In light of the data and responses received on or before the July 18 deadline, the Department concluded that additional information was needed from each corporation. On August 4, 2011, the Department requested from each corporation: (1) information regarding reasonably anticipated and supported changes from the corporation's 2011 Bus Replacement Plan; and (2) the corporation's own proposed bus replacement maximum levy for 2012. The Department provided the corporations a template to report this information, as well as a submission deadline of September 15, 2011. The Department gave corporations the opportunity to state and explain their levy needs and identify all matters affecting the levy.

After the September 15 deadline, the Department reviewed materials submitted in response to the August 4 memo, as well as materials submitted before July 18, the corporations' 2011 Bus Replacement Plans, and any transfers corporations made from their bus replacement funds. The Department, in reliance on CIESC bus price information and upon identifying reasonable needs substantiated by each corporation, added together the replacement costs by bus classification and the amount of bus-related contractual obligations and divided this number by 12 to reflect a 12-year plan. The Department accounted for additional costs, such as special educational cooperative obligations, and allowed for the addition of one or more buses due to increased student enrollment, the corporation's resumption of bus routes it had previously contracted to a third party, unexpected increase in special education transportation, or other specific situations. The Department typically recognized these additional costs by increasing bus totals. For example, if increased enrollment would necessitate an additional Type D bus, the Department recognized this increase by adding an additional Type D bus to the corporation's bus count.

When appropriate, the Department divided these additional costs over the 12 years of the plan. In other words, if a corporation demonstrated increased student enrollment for 2012 justifying the addition of a Type D bus, the Department would spread the cost of the bus over 12 years. If the Department would have granted the corporation the entire amount of the bus for 2012, the corporation's bus replacement levy could potentially remain inflated by that amount in subsequent years, thus giving the corporation a windfall.

The Department applied an adjustment factor of 10% to the total calculated need to provide corporations increased flexibility in meeting their bus needs. In order to apply this factor, the Department multiplied the total calculated need for the corporation by 1.1.

The Department then adjusted the need by the amount that would come from miscellaneous revenues (e.g., Financial Institutions Tax) to arrive at the maximum levy. The Department communicated the approved maximum levies to the corporations through the 1782 Notice process.

Method to Determine Price of Bus Sales to Calculate Maximum Levy

In order to get an accurate depiction of the reasonable need, the Department used the actual sale price of all buses through CIESC. By doing so, the Department was able to account for various specifications (including buses equipped for special education), trade-in-value, and the several bus companies CIESC incorporates in its bidding process. For the July 6 notification of the maximum levy, the Department determined the median price of bus sales through CIESC from fall 2007 to fall 2010. This resulted in the following bus prices that were used in the Department's calculation: Type A buses at $50,296 per bus; Type B buses at $78,400 per bus; Type C buses at $83,042.50 per bus; and Type D buses at $103,968 per bus.

After discussions with school corporations and other interested parties, the Department shortened the window of time that it looked at bus sales, and determined the average price for all sales from fall 2010 to spring 2011. Therefore, the average sales prices of buses to be used in the Department's final calculation are: Type A buses at $48,453 per bus; Type B buses at $83,825 per bus; Type C buses at $88,055 per bus; and Type D buses at $111,372 per bus.

The average sales price of buses in each classification in 2010 is as follows: Type A buses at $49,282 per bus; Type B buses at $83,825 per bus; Type C buses at $89,175 per bus; and Type D buses at $111,678 per bus.

The average sales price of buses in each classification in spring 2011 is as follows: Type A buses at $46,916 per bus; no Type B buses sold; Type C buses at $86,041 per bus; and Type D buses at $110,294 per bus. The Department notes that the average sales prices of each bus classification in 2011 decreased from 2010 (Note: no Type B buses sold in spring 2011).

Additionally, as of November 10, 2011, eight Type C buses had been purchased through CIESC through a fall 2011 bid process, which reflects different base and option pricing from the earlier spring 2011 pricing. The Department did not include these sales in its analysis because the bid is not complete. However, it should be noted that the average sales price of these eight Type C buses is $81,629.